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CITY OF FULLERTON, CALIFORNIA

**SINGLE AUDIT OF FEDERAL
GRANT PROGRAMS**

JUNE 30, 2009

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1/20/10

CITY OF FULLERTON

TABLE OF CONTENTS

June 30, 2009

Page
Number

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	1 - 2
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with <u>OMB Circular A-133</u> and the Schedule of Expenditures of Federal Awards	3 - 4
<u>Schedule of Expenditures of Federal Awards and</u> <u>Schedule of Findings and Questioned Costs</u>	
Schedule of Expenditures of Federal Awards	5 - 6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8 - 10



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November 20, 2009

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of City Council
City of Fullerton
Fullerton, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fullerton, California (the City), as of and for the year ended June 30, 2009, which collectively comprise to City's basic financial statements and have issued our report thereon dated November 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

- 1 -

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Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Dierl, Evans and Company, LLP



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November 20, 2009

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and
Members of City Council
City of Fullerton
Fullerton, California

Compliance

We have audited the compliance of City of Fullerton (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

- 3 -

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Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fullerton, California (the City), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 20, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statement. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Diehl, Evans and Company, LLP

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF FULLERTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2009

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursements to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct Program:				
Community Development Block Grants:				
Entitlement Grants	14.218	B - 07 - MC - 06 - 0504 B - 08 - MC - 06 - 0504	\$ 1,668,194 *	\$ 142,550
Section 108 Loan Guarantees	14.248	-	39,922	-
HOME Investment Partnership Programs	14.239	M - 02 - MC - 06 - 0510 M - 03 - MC - 06 - 0510 M - 04 - MC - 06 - 0510 M - 05 - MC - 06 - 0510 M - 06 - MC - 06 - 0510 M - 08 - MC - 06 - 0510	399,488	-
Pass-through California State University, Fullerton Hispanic Serving Institutions Assisting Communities Program:				
Richman Community Center	14.514	HSIAC - 05 - CA - 21	8,064	-
Youth Program		HSIAC - 05 - CA - 21	9,250	-
Total Pass-through California State University, Fullerton			17,314	-
Total U.S. Department of Housing and Urban Development			2,124,918	142,550
<u>U.S. Department of Health and Human Services</u>				
Passed through the State Department of Aging - Older American Act:				
Special Programs for Aging - Title III B	93.044	40 - 4182	68,623	-
<u>U.S. Department of Commerce</u>				
Pass through the California Office of Homeland Security and the City of Santa Ana:				
Public Safety Interoperable Communications Grant	11.555	2007 - GS - H7 - 0008	200,960 *	-

See Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A - 133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (page 7).

CITY OF FULLERTON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2009

Federal Grantor / Pass - Through Grantor / Program	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Disbursements to Subrecipients
<u>U.S. Department of Homeland Security</u>				
Passed through the California Governor's Office of Emergency Services:				
FEMA Hazard Mitigation Grant	97.039	1628 - 23 - 06P	\$ 9,759	\$ -
<u>U.S. Department of Transportation</u>				
Direct Program:				
Federal Aviation Administration Grant	20.106	3 - 06 - 0091 - 20 - 2009		
		3 - 06 - 0091 - 18 - 2007	327,064	-
Passed through State of California:				
Highway Planning and Construction	20.205	STPL - 5133(033)		
		STPL - 5133(034)	376,053	-
Total U.S. Department of Transportation			703,117	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,107,377	\$ 142,550

* - Major Program

See Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A - 133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (page 7).

CITY OF FULLERTON

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2009

1. REPORTING ENTITY:

The City of Fullerton (the City) for purposes of the Schedule of Expenditures of Federal Awards includes all funds of the primary government and its blended component units as defined by GASB Statement No. 14 "The Financial Reporting Entity".

2. BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards reports expenditures on the modified accrual basis of accounting. Accordingly, expenditures represent amounts incurred during the fiscal year which meet federal grant eligibility requirements.

3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards with the exception of the expenditures of the Community Development Block Grant Program agree to amounts reported within the City's Annual Comprehensive Annual Financial Report.

4. DEFERRED LOANS RECEIVABLE:

The CDBG balance of deferred loans receivable at June 30, 2009 was \$1,532,463.

5. CONTINGENCIES:

Under the terms of federal grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

See Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (pages 5 and 6).

CITY OF FULLERTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2009

1. SUMMARY OF AUDITORS' RESULTS:

- a. The auditors' report expresses an unqualified opinion on the financial statements of the City of Fullerton.
- b. No significant deficiencies relating to the audit of the financial statements are reported.
- c. No instances of noncompliance material to financial statements of the City of Fullerton were disclosed during the audit.
- d. No significant deficiencies relating to the audit of the major federal award programs are reported.
- e. The auditors' report on compliance for the major federal award programs for the City of Fullerton expresses an unqualified opinion on all major federal programs.
- f. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
- g. The threshold used for distinguish between type A and type B programs was \$300,000.
- h. The programs tested as major programs were:

<u>Program Description</u>	<u>Catalog of Federal Domestic Assistance Number</u>
Community Development Block Grants:	
Entitlement Grants	14.218
Public Safety Interoperable Communications Grant	11.555

- i. The City of Fullerton qualified as a low-risk auditee.

See Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF FULLERTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2009

2. FINDINGS - FINANCIAL STATEMENT AUDIT:

There were no significant deficiencies or noncompliance material to the financial statements which were disclosed by the audit of the financial statements of the City of Fullerton for the year ended June 30, 2009.

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

None

See Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF FULLERTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2009

SUMMARY OF PRIOR AUDIT FINDINGS:

There were no finding or questioned costs reported for the year ended June 30, 2008.

See Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).